

**CITY OF SABULA
SABULA, IOWA**

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2015**

**CITY OF SABULA
SABULA, IOWA**

TABLE OF CONTENTS

	<u>Page No.</u>
Officials	1
Independent Auditor's Report	2-4
Basic Financial Statements:	
	Exhibit
Government-wide Financial Statement:	
Cash Basis Statement of Activities and Net Position	A 5-6
Governmental Fund Financial Statement:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B 7-8
Proprietary Fund Financial Statement:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C 9
Fiduciary Fund Financial Statement:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balance	D 10
Notes to Financial Statements	11-24
Other Information:	
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds	25-26
Notes to Other Information - Budgetary Reporting	27
Schedule of the City's Proportionate Share of the Net Pension Liability	28
Schedule of City Contributions	29
Notes to Other Information – Pension Liability	30-31
Supplementary Information:	
	Schedule
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Governmental Funds	1 32
Schedule of Indebtedness	2 33
Bond and Note Maturities	3 34
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	35-36
Schedule of Findings	37-43

**CITY OF SABULA
SABULA, IOWA**

OFFICIALS

Name	Title	Term Expires
<hr/>		
(Before January 2015)		
Donald Thayer	Mayor	January 2016
Eric Hartman	Council Member	January 2018
Teena Franzen	Council Member	January 2018
Marian Alimi	Council Member	January 2016
Darwin Paddock	Council Member	January 2016
Henry Kramer	Council Member	January 2016
Ronda James	Clerk/Treasurer	Indefinite
Melissa A. Burken Mommsen	Attorney	Indefinite
(After January 2015)		
Paul Figie	Mayor	January 2016
Eric Hartman	Council Member	January 2018
Teena Franzen	Council Member	January 2018
Marian Alimi	Council Member	January 2016
Darwin Paddock	Council Member	January 2016
Henry Kramer	Council Member	January 2016
Lynn Parker	Clerk/Treasurer	Indefinite
Brian Donnelly	Attorney	Indefinite

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P.O. Box 743
Dubuque, IA 52004-0743
Phone | 563-582-7224
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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council:

Report on the Financial Statements

www.oconnorbrooks.com

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Sabula, Iowa as of and for the year ended June 30, 2015, and the related Notes to Financial Statements, which collectively comprise the basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Qualified Opinions

As permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2014.

Qualified Opinions

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2014, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Sabula as of June 30, 2015, and the respective changes in its cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which are a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Our opinions are not modified with respect to this matter.

Emphasis of a Matter

As disclosed in Note 4 to the financial statements, the City of Sabula adopted new accounting guidance related to Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions. Our opinions are not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Sabula's basic financial statements. The supplementary information included in Schedules 1-3 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1,

2014, as discussed in the "Basis for Qualified Opinions" paragraph, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, the budgetary comparison information, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of City Contributions on pages 25 through 31 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated May 27, 2016 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control over financial reporting and compliance.

O'CONNOR, BROOKS & CO., P.C.

O'Connor, Brooks & Co., P.C.

Dubuque, Iowa

May 27, 2016

**BASIC
FINANCIAL
STATEMENTS**

EXHIBIT "A"

**CITY OF SABULA
SABULA, IOWA**

**CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION
AS OF AND FOR THE YEAR ENDED JUNE 30, 2015**

	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Position			
	Disbursements	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business Type Activities	Total
Functions/Programs:							
Governmental Activities:							
Public safety	\$ 214,588	\$ 13,441	\$ 20,933	\$ ---	\$ (180,214)	\$ ---	\$ (180,214)
Public works	100,438	---	59,894	---	(40,544)	---	(40,544)
Health and social services	700	---	---	---	(700)	---	(700)
Culture and recreation	85,777	528	13,016	---	(72,233)	---	(72,233)
Community and economic development	3,065	---	---	---	(3,065)	---	(3,065)
General government	69,032	7,378	---	---	(61,654)	---	(61,654)
Debt service	49,579	---	---	---	(49,579)	---	(49,579)
Total Governmental Activities	\$ 523,179	\$ 21,347	\$ 93,843	\$ ---	\$ (407,989)	\$ ---	\$ (407,989)
Business Type Activities:							
Water	\$ 93,864	\$ 128,242	\$ ---	\$ ---	\$ ---	\$ 34,378	\$ 34,378
Sewer	155,467	115,868	---	---	---	(39,599)	(39,599)
Electric	525,102	544,512	---	---	---	19,410	19,410
Gas	351,804	334,866	---	---	---	(16,938)	(16,938)
Solid waste	63,165	73,464	---	---	---	10,299	10,299
Utility deposits	3,375	---	---	---	---	(3,375)	(3,375)
Total Business Type Activities	\$ 1,192,777	\$ 1,196,952	\$ ---	\$ ---	\$ ---	\$ 4,175	\$ 4,175
Total	\$ 1,715,956	\$ 1,218,299	\$ 93,843	\$ ---	\$ (407,989)	\$ 4,175	\$ (403,814)

See notes to financial statements.

**CITY OF SABULA
SABULA, IOWA**

**CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION
AS OF AND FOR THE YEAR ENDED JUNE 30, 2015**

	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Position			
	Disbursements	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business Type Activities	Total
General Receipts and Transfers:							
Property tax levied for:							
General purposes					\$ 176,332	\$ ---	\$ 176,332
Debt service					20,556	---	20,556
Local option sales tax					47,097	---	47,097
Other city tax					6,211	---	6,211
Unrestricted interest on investment					1,487	---	1,487
Loan proceeds					---	25,000	25,000
Miscellaneous					21,758	11,337	33,095
Sale of capital assets					3,582	---	3,582
Transfers					101,998	(101,998)	---
Total General Receipts and Transfers					\$ 379,021	\$ (65,661)	\$ 313,360
Change in Cash Basis Net Position					\$ (28,968)	\$ (61,486)	\$ (90,454)
Cash Basis Net Position Beginning of Year					286,044	595,106	881,150
Cash Basis Net Position End of Year					\$ 257,076	\$ 533,620	\$ 790,696
Cash Basis Net Position:							
Restricted:							
Nonexpendable:							
Cemetery perpetual care					\$ 46,087	\$ ---	\$ 46,087
Expendable:							
Debt service					\$ 21,258	\$ ---	\$ 21,258
Streets					11,164	---	11,164
Public safety					78,953	---	78,953
Economic development					86,312	---	86,312
Library					32,729	---	32,729
Other purposes					16,557	---	16,557
Unrestricted					(35,984)	533,620	497,636
Total Cash Basis Net Position					\$ 257,076	\$ 533,620	\$ 790,696

See notes to financial statements.

**CITY OF SABULA
SABULA, IOWA**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES - GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2015**

See notes to financial statements.

**CITY OF SABULA
SABULA, IOWA**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES - GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2015**

	Special Revenue				Permanent	
	General	Road Use Tax	Economic Development	Sabula Ambulance	Cemetery Perpetual Care	Total
Other Financing Sources (Uses):						
Sale of capital assets	\$ 3,582	\$ ---	\$ ---	\$ ---	\$ ---	\$ 3,582
Transfers in	82,659	29,740	---	---	---	133,471
Transfers out	(6,155)	---	---	---	---	(31,473)
Total Other Financing Sources (Uses)	\$ 80,086	\$ 29,740	\$ ---	\$ ---	\$ ---	\$ 105,580
Change in Cash Balances	\$ (47,260)	\$ 3,540	\$ (3,000)	\$ 8,636	\$ ---	\$ (28,968)
Cash Balances Beginning of Year	386	7,624	89,312	55,584	46,087	286,044
Cash Balances End of Year	\$ (46,874)	\$ 11,164	\$ 86,312	\$ 64,220	\$ 46,087	\$ 257,076
Cash Basis Fund Balances:						
Nonspendable – Cemetery perpetual care	\$ --	\$ ---	\$ ---	\$ ---	\$ 46,087	\$ 46,087
Restricted for:						
Debt service	---	---	---	---	---	21,258
Streets	---	11,164	---	---	---	11,164
Public safety	---	---	---	64,220	---	78,953
Economic development	---	---	86,312	---	---	86,312
Library	---	---	---	---	---	32,729
Other purposes	---	---	---	---	---	16,557
Unassigned	(46,874)	---	---	---	---	(35,984)
Total Cash Basis Fund Balances	\$ (46,874)	\$ 11,164	\$ 86,312	\$ 64,220	\$ 46,087	\$ 257,076

See notes to financial statements.

**CITY OF SABULA
SABULA, IOWA**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH
BALANCES - PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2015**

	Enterprise					Other Non-Major Enterprise Fund		
	Water	Sewer	Electric	Gas	Solid Waste	Utility Deposits	Total	
Operating Receipts:								
Charges for services	\$ 128,242	\$ 115,868	\$ 544,512	\$ 334,866	\$ 73,464	\$ ---	\$ 1,196,952	
Miscellaneous	---	---	1,234	3,813	---	6,290	11,337	
Total Operating Receipts	\$ 128,242	\$ 115,868	\$ 545,746	\$ 338,679	\$ 73,464	\$ 6,290	\$ 1,208,289	
Operating Disbursements:								
Business type activities	\$ 93,864	\$ 155,467	\$ 525,102	\$ 351,804	\$ 63,165	\$ 3,375	\$ 1,192,777	
Excess (Deficiency) of Operating Receipts Over (Under) Operating Disbursements	\$ 34,378	\$ (39,599)	\$ 20,644	\$ (13,125)	\$ 10,299	\$ 2,915	\$ 15,512	
Other Financing Sources (Uses):								
Transfers in	\$ ---	\$ 36,000	\$ ---	\$ ---	\$ ---	\$ ---	\$ 36,000	
Transfers out	---	---	(82,499)	(55,499)	---	---	(137,998)	
Loan proceeds	---	25,000	---	---	---	---	25,000	
Total Other Financing Sources (Uses)	\$ ---	\$ 61,000	\$ (82,499)	\$ (55,499)	\$ ---	\$ ---	\$ (76,998)	
Changes in Cash Balances	\$ 34,378	\$ 21,401	\$ (61,855)	\$ (68,624)	\$ 10,299	\$ 2,915	\$ (61,486)	
Cash Balances Beginning of Year	111,647	52,792	120,218	227,343	72,012	11,094	595,106	
Cash Balances End of Year	\$ 146,025	\$ 74,193	\$ 58,363	\$ 158,719	\$ 82,311	\$ 14,009	\$ 533,620	
Cash Basis Fund Balances:								
Unrestricted	\$ 146,025	\$ 74,193	\$ 58,363	\$ 158,719	\$ 82,311	\$ 14,009	\$ 533,620	

See notes to financial statements.

**CITY OF SABULA
SABULA, IOWA**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
FIDUCIARY FUNDS**

AS OF AND FOR THE YEAR ENDED JUNE 30, 2015

	Agency ----- Customer Contributions -----
Receipts:	
Contributions	\$ 45
Disbursements:	
None	---

Excess of receipts over disbursements	45
Cash balance beginning of year	387

Cash balance end of year	\$ 432 =====

See notes to financial statements.

**CITY OF SABULA
SABULA, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

Note 1 - Summary of Significant Accounting Policies:

The City of Sabula is a political subdivision of the State of Iowa located in Jackson County. It was first incorporated in 1864 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water, sewer, electric, gas and solid waste utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Sabula has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Jackson County Assessor's Conference Board, Jackson County Emergency Management Commission, and Jackson County Joint E911 Service Board.

B. Basis of Presentation

Government-wide Financial Statement - The Cash Basis Statement of Activities and Net Position reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

**CITY OF SABULA
SABULA, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

Note 1 - Summary of Significant Accounting Policies: (Continued)

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

Nonexpendable restricted net position is subject to externally imposed stipulations which require the cash balance to be maintained permanently by the City, including the City's Permanent Fund.

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of cash balances not meeting the definition of the preceding category. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds and enterprise funds are aggregated and reported as nonmajor governmental funds and nonmajor enterprise funds.

**CITY OF SABULA
SABULA, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

Note 1 - Summary of Significant Accounting Policies: (Continued)

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Economic Development Fund is used to account for local option sales tax and other resources used to encourage economic development in the City.

The Sabula Ambulance Fund is used to account for the operation of the City's ambulance service.

The Permanent Fund includes the Cemetery Perpetual Care Fund which is used to account for care and maintenance of the cemetery.

The City reports the following major proprietary funds:

The Enterprise, Water Fund accounts for the operation and maintenance of the City's water system.

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The Enterprise, Electric Fund accounts for the operation and maintenance of the City's electric system.

The Enterprise, Gas Fund accounts for the operation and maintenance of the City's gas system.

The Enterprise, Solid Waste Fund accounts for the operation and maintenance of the City's solid waste system.

**CITY OF SABULA
SABULA, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

Note 1 - Summary of Significant Accounting Policies: (Continued)

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable - Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Unassigned - All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2015, disbursements exceeded the amounts budgeted in the public safety, public works, and community and economic development functions.

**CITY OF SABULA
SABULA, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

Note 2 - Cash and Pooled Investments:

The City's deposits in banks at June 30, 2015 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Interest Rate Risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

Note 3 - Bonds and Notes Payable:

Annual debt service requirements to maturity for the City's indebtedness are as follows:

Year Ending June 30,	General Obligation Bond		Squad Car Upfit Note		USDA Levee Improvement Note	
	Principal	Interest	Principal	Interest	Principal	Interest
2016	\$ 15,000	\$ 1,550	\$ 2,076	\$ 181	\$ 13,878	\$ 10,268
2017	20,000	890	2,178	80	14,312	9,834
2018	---	---	---	---	14,759	9,387
2019	---	---	---	---	15,220	8,926
2020	---	---	---	---	15,696	8,450
2021-2025	---	---	---	---	86,150	34,580
2026-2030	---	---	---	---	100,479	20,251
2031-2033	---	---	---	---	68,083	4,355
Total	\$ 35,000	\$ 2,440	\$ 4,254	\$ 261	\$ 328,577	\$ 106,051

Year Ending June 30	Other Obligation		Total	
	Principal	Interest	Principal	Interest
2016	\$ 104,619	\$ ---	\$ 135,573	\$ 11,999
2017	---	---	36,490	10,804
2018	---	---	14,759	9,387
2019	---	---	15,220	8,926
2020	---	---	15,696	8,450
2021-2025	---	---	86,150	34,580
2026-2030	---	---	100,479	20,251
2031-2033	---	---	68,083	4,355
Total	\$ 104,619	\$ ---	\$ 472,450	\$ 108,752

**CITY OF SABULA
SABULA, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

Note 3 - Bonds and Notes Payable: (Continued)

General Obligation Bond - On May 15, 2007, the City issued \$150,000 of general obligation corporate purpose bonds, with interest rates ranging from 4.00% to 4.45%. Interest on the bonds is due semiannually. Bonds due June 1, 2014 – 2017 are callable in whole or in part any date on or after June 1, 2013, at a price of par plus accrued interest.

Squad Car Upfit Note – On February 22, 2013, the City entered into an agreement to borrow \$8,120 from Kansas State Bank to upfit a squad car. The note calls for semi-annual payments of \$1,129, including 4.85% annual interest on the outstanding note balance and matures February 22, 2017.

USDA Levee Improvement Note – On February 7, 2013, the City entered into an agreement with the U.S. Department of Agricultural (USDA) to borrow \$355,084. Proceeds from the noted provided financing for improvements and extensions to the City's levee system. The note is considered a general obligation of the City. The note includes a 3.125% interest rate and requires annual payments of \$24,146 beginning February 7, 2014 and matures February 7, 2033.

Interim Loan and Disbursement Agreement - On June 21, 2013, the City entered into an interim loan and disbursement agreement with the Iowa Finance Authority (IFA) to borrow up to \$131,000. The loan is interest free and is payable in full within three years of the date of the agreement. The City had borrowed \$104,619 on this loan through June 30, 2015.

The IFA may terminate the agreement if the City has not entered into a Loan and Disbursement Agreement with the IFA pursuant to the Iowa Water Pollution Control Works and Drinking Water Facilities Financing Program by the maturity date. If the City enters into a Loan and Disbursement Agreement with IFA pursuant to the Iowa Water Pollution Control Works and Drinking Water Facilities Financing Program by the maturity date, IFA may allow the City to repay this agreement by rolling the interim loan into the permanent loan.

Note 4 - Pension Plan:

Plan Description – IPERS membership is mandatory for employees of the City, except for those covered by another retirement system. Employees of the City are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive, P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

**CITY OF SABULA
SABULA, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

Note 4 - Pension and Retirement Benefits: (Continued)

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits – A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member's first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member's highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year salary.)

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month that the member received benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50 percent for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits – A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

**CITY OF SABULA
SABULA, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

Note 4 - Pension and Retirement Benefits: (Continued)

Contributions – Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2015, pursuant to the required rate, regular members contributed 5.95 percent of pay and the City contributed 8.93 percent for a total rate of 14.88 percent. Protective occupation members contributed 6.76 percent and the City contributed 10.14 percent for a total rate of 16.90 percent.

The City's contributions to IPERS for the year ended June 30, 2015 were \$26,429.

Collective Net Pension Liabilities, Collective Pension Expense, and Collective Deferred Outflows of Resources and Collective Deferred Inflows of Resources Related to Pensions

– At June 30, 2015, the City's liability for its proportionate share of the collective net pension liability totaled \$118,096. The collective net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the collective net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the collective net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2014, the City proportion was 0.0029778 percent, which was a decrease of 0.0005395 percent from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the City's collective pension expense, collective deferred outflows and collective deferred inflows totaled \$11,205, \$73,017, and \$0, respectively.

Actuarial Assumptions – The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of inflation (effective June 30, 2014)	3.00 percent per annum
Rates of salary increase (effective June 30, 2010)	4.00 to 17.00 percent, average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50 percent, compounded annually, net of investment expense, including inflation

**CITY OF SABULA
SABULA, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

Note 4 - Pension and Retirement Benefits: (Continued)

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
US Equity	23%	6.31
Non US Equity	15	6.76
Private Equity	13	11.34
Real Estate	8	3.52
Core Plus Fixed Income	28	2.06
Credit Opportunities	5	3.67
TIPS	5	1.92
Other Real Assets	2	6.27
Cash	1	(0.69)
Total	100%	

Discount Rate – The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**CITY OF SABULA
SABULA, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

Note 4 - Pension and Retirement Benefits: (Continued)

Sensitivity of the City's Proportional Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate.

	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
	-----	-----	-----
City's proportionate share of the net pension liability	\$ 264,979	\$ 118,096	\$ (5,814)

Pension Plan Fiduciary Net Position – Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

Note 5 - Other Postemployment Benefits (OPEB)

Plan Description - The city operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. There are 5 active and 0 retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$538 for single coverage and \$1,344 for family coverage. For the year ended June 2015, the City contributed \$69,835 and plan members eligible for benefits contributed \$3,490 to the plan.

**CITY OF SABULA
SABULA, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

Note 6 - Compensated Absences:

City employees accumulate a limited amount of earned but unused vacation, comp time and personal days leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation, comp time and personal days payable to employees at June 30, 2015, primarily relating to the General Fund, is as follows:

Vacation	\$ 5,820
Comp time	3,242
Personal days	364

Total	\$ 9,426
	=====

This liability has been computed based on rates of pay in effect at June 30, 2015.

Note 7 - Interfund Transfers:

The detail of interfund transfers for the year ended June 30, 2015 is as follows:

Transfer to -----	Transfer from -----	Amount -----
General	Special Revenue:	
	Local Option Sales Tax	\$ 12,659
	Enterprise:	
	Electric	48,500
	Gas	21,500
Debt Service	General	\$ 6,155
	Special Revenue:	
	Local Option Sales Tax	12,659
	Enterprise:	
	Electric	1,129
	Gas	1,129
Enterprise:	Enterprise:	
Sewer	Electric	\$ 18,000
	Gas	18,000
Special Revenue:	Enterprise:	
Road Use Tax	Electric	\$ 14,870
	Gas	14,870

		\$ 169,471
		=====

**CITY OF SABULA
SABULA, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

Note 7 - Interfund Transfers: (continued)

Transfers are used to (1) move resources from the fund statute or budget requires to collect them to a fund that statute or budget allows or requires to disburse them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general or enterprise funds to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Note 8 - Risk Management:

The City is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 727 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public official's liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual casualty operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses estimated for the fiscal year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained at a level determined by the Board not to exceed 300% of basis rate.

The Pool also provides property coverage. Members who elect such coverage make annual property operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses, reinsurance premiums, losses and loss expenses for property risks estimated for the fiscal year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2015 were \$24,351.

**CITY OF SABULA
SABULA, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

Note 8 - Risk Management: (Continued)

The Pool uses reinsurance and excess risk sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate. Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence, each location. Property risks exceeding \$250,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim, property loss or series of claims or losses exceeds the amount of risk-sharing protection provided by the City's risk-sharing certificate, or in the event a casualty claim, property loss or series of claims or losses exhausts the Pool's funds and any excess risk-sharing recoveries, then payment of such claims or losses shall be the obligation of the respective individual member against whom the claim was made or the loss was incurred.

The City does not disclose a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2015, no liability has been disclosed in the City's financial statements. As of June 30, 2015, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Upon withdrawal, a formula set forth in the Pool's intergovernmental contract with its members is applied to determine the amount (if any) to be refunded to the withdrawing member.

The City also carries commercial insurance purchased from other insurers for coverage associated with workers compensation in the amount of \$8,248. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**CITY OF SABULA
SABULA, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

Note 9 - Deficit Fund Balance:

The General Fund had a deficit fund balance of \$46,874 at June 30, 2015.

Note 10 - Subsequent Events:

On January 8, 2016, the City entered into an interim loan and disbursement agreement with the Iowa Finance Authority (IFA) to borrow up to \$50,000. The loan is interest free and payable in full within three years of the date of the agreement. The City has borrowed \$33,750 on this loan.

In May, 2016, the City received \$300,000 in Community Development Block Grant funds from the Iowa Economic Development Authority. The grant will partially fund a sewer main replacement and lift station improvements.

The City's management has evaluated subsequent events and transactions for potential financial statement recognition and disclosure through May 27, 2016, the date the financial statements were available to be issued.

**OTHER
INFORMATION**

**CITY OF SABULA
SABULA, IOWA**

**BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS AND
CHANGES IN BALANCES - BUDGET AND ACTUAL (CASH BASIS) -
ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS
OTHER INFORMATION
YEAR ENDED JUNE 30, 2015**

	Governmental Funds Actual	Proprietary Funds Actual	Total	Budgeted Amounts		Final to Total Variance
				Original	Final	
Receipts:						
Property tax	\$ 196,379	\$ ---	\$ 196,379	\$ 190,749	\$ 190,749	\$ 5,630
Other city tax	53,817	---	53,817	58,602	58,602	(4,785)
Licenses and permits	5,281	---	5,281	7,205	7,205	(1,924)
Use of money and property	12,172	---	12,172	9,920	9,920	2,252
Intergovernmental	82,351	---	82,351	76,574	76,574	5,777
Charges for services	16,066	1,196,952	1,213,018	1,209,934	1,209,934	3,084
Miscellaneous	22,565	11,337	33,902	4,280	4,280	29,622
Total Receipts	\$ 388,631	\$ 1,208,289	\$ 1,596,920	\$ 1,557,264	\$ 1,557,264	\$ 39,656
Disbursements:						
Public safety	\$ 214,588	\$ ---	\$ 214,588	\$ 167,518	\$ 204,818	\$ (9,770)
Public works	100,438	---	100,438	94,918	94,918	(5,520)
Health and social services	700	---	700	700	700	---
Culture and recreation	85,777	---	85,777	86,791	96,791	11,014
Community and economic development	3,065	---	3,065	3,000	3,000	(65)
General government	69,032	---	69,032	63,285	73,285	4,253
Debt service	49,579	---	49,579	50,262	50,262	683
Business type activities	---	1,192,777	1,192,777	1,103,531	1,315,531	122,754
Total Disbursements	\$ 523,179	\$ 1,192,777	\$ 1,715,956	\$ 1,570,005	\$ 1,839,305	\$ 123,349

**CITY OF SABULA
SABULA, IOWA**

**BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS AND
CHANGES IN BALANCES - BUDGET AND ACTUAL (CASH BASIS) -
ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS
OTHER INFORMATION
YEAR ENDED JUNE 30, 2015**

	Governmental Funds Actual	Proprietary Funds Actual	Total	Budgeted Amounts		Final to Total Variance
				Original	Final	
Excess (Deficiency) of Receipts Over (Under) Disbursements	\$ (134,548)	\$ 15,512	\$ (119,036)	\$ (12,741)	\$ (282,041)	\$ 163,005
Other Financing Sources (Uses), Net	105,580	(76,998)	28,582	---	269,300	(240,718)
Excess (Deficiency) of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	\$ (28,968)	\$ (61,486)	\$ (90,454)	\$ (12,741)	\$ (12,741)	\$ (77,713)
Balances, Beginning of Year	286,044	595,106	881,150	1,071,971	1,071,971	(190,821)
Balances, End of Year	\$ 257,076	\$ 533,620	\$ 790,696	\$ 1,059,230	\$ 1,059,230	\$ (268,534)

See accompanying independent auditor's report.

**CITY OF SABULA
SABULA, IOWA**

**NOTES TO OTHER INFORMATION
BUDGETARY REPORTING
JUNE 30, 2015**

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Permanent Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$269,300. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2015, disbursements exceeded the amounts budgeted in the public safety, public works and community and economic development functions.

**CITY OF SABULA
SABULA, IOWA**

**SCHEDULE OF THE CITY'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY**

**IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
LAST FISCAL YEAR*
(IN THOUSANDS)**

OTHER INFORMATION

	2015 -----
City's proportion of the net pension liability	0.0029778%
City's proportionate share of the net pension liability	\$ 118
City's covered-employee payroll	277
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	42.60%
Plan fiduciary net position as a percentage of the total pension liability	87.61%

* The amounts presented for each fiscal year were determined as of June 30.

GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

**CITY OF SABULA
SABULA, IOWA**

SCHEDULE OF CITY CONTRIBUTIONS

**IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
LAST 3 FISCAL YEARS
(IN THOUSANDS)**

OTHER INFORMATION

	2015	2014	2013
	-----	-----	-----
Statutorily required contribution	\$ 26	\$ 25	\$ 25
Contributions in relation to the statutorily required contribution	(26)	(25)	(25)
	-----	-----	-----
Contribution deficiency (excess)	\$ ---	\$ ---	\$ ---
	=====	=====	=====
City's covered-employee payroll	\$ 288	\$ 277	\$ 278
Contributions as a percentage of covered- employee payroll	9.03%	9.03%	8.99%

See accompanying independent auditor's report.

**CITY OF SABULA
SABULA, IOWA**

**NOTES TO OTHER INFORMATION - PENSION LIABILITY
YEAR ENDED JUNE 30, 2015**

Changes of benefit terms:

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3 percent per year measured from the member's first unreduced retirement age to a 6 percent reduction for each year of retirement before age 65.

In 2008, legislative action transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session. The eligibility for unreduced retirement benefits was lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of service requirement remained at 22 or more. Their contribution rates were also changed to be shared 50-50 by the employee and employer, instead of the previous 40-60 split.

Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25 percent to 3.00 percent
- Decreased the assumed rate of interest on member accounts from 4.00 percent to 3.75 percent per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

**CITY OF SABULA
SABULA, IOWA**

**NOTES TO OTHER INFORMATION - PENSION LIABILITY
YEAR ENDED JUNE 30, 2015**

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate.

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25 percent to 4.00 percent.
- Lowered the inflation assumption from 3.50 percent to 3.25 percent.
- Lowered disability rates for sheriffs and deputies and protection occupation members.

SUPPLEMENTARY INFORMATION

CITY OF SABULA
SABULA, IOWA

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES
IN CASH BALANCES - NONMAJOR GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2015

Special Revenue

	FEMA Flood Pump Grant	Employee Benefits	Local Option Sales Tax	Krabbenhoft Public Library	Sabula Rescue	Sabula Volunteer Fire Dept.	Sabula Business Assoc.	Debt Service	Total
Receipts:									
Property taxes	\$ ---	\$ 17,675	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ 20,556	\$ 38,231
Other city tax	---	46	47,097	---	---	---	---	53	47,196
Use of money and property	---	---	---	63	---	11	---	---	74
Charges for service	---	---	---	---	---	100	---	---	100
Miscellaneous	---	---	---	2,427	525	7,275	55	---	10,282
Total Receipts	\$ ---	\$ 17,721	\$ 47,097	\$ 2,490	\$ 525	\$ 7,386	\$ 55	\$ 20,609	\$ 95,883
Disbursements:									
Operating:									
Public safety	\$ ---	\$ 11,918	\$ ---	\$ ---	\$ 946	\$ 6,625	\$ ---	\$ ---	\$ 19,489
Public works	---	5,080	---	---	---	---	---	---	5,080
Culture and recreation	---	7,709	---	108	---	---	---	---	7,817
General government	---	556	---	---	---	---	---	---	556
Debt service	---	---	---	---	---	---	---	49,579	49,579
Total Disbursements	\$ ---	\$ 25,263	\$ ---	\$ 108	\$ 946	\$ 6,625	\$ ---	\$ 49,579	\$ 82,521
Excess (deficiency) of receipts over (under) disbursements	\$ ---	\$ (7,542)	\$ 47,097	\$ 2,382	\$ (421)	\$ 761	\$ 55	\$ (28,970)	\$ 13,362
Other financing sources (uses):									
Transfers in	\$ ---	\$ ---	\$ (25,318)	\$ ---	\$ ---	\$ ---	\$ ---	\$ 21,072	\$ 21,072
Transfers out	---	---	---	---	---	---	---	---	(25,318)
Total Other Financing Sources (Uses)	\$ ---	\$ ---	\$ (25,318)	\$ ---	\$ ---	\$ ---	\$ ---	\$ 21,072	\$ (4,246)
Net change in cash balances	\$ ---	\$ (7,542)	\$ 21,779	\$ 2,382	\$ (421)	\$ 761	\$ 55	\$ (7,898)	\$ 9,116
Cash balances beginning of year	\$ 1,515	\$ 21,452	\$ ---	\$ 30,347	\$ 1,820	\$ 12,573	\$ 1,077	\$ 18,267	\$ 87,051
Cash balances end of year	\$ 1,515	\$ 13,910	\$ 21,779	\$ 32,729	\$ 1,399	\$ 13,334	\$ 1,132	\$ 10,369	\$ 96,167
Cash Basis Fund Balances:									
Restricted for:									
Debt service	\$ ---	\$ ---	\$ 10,889	\$ ---	\$ ---	\$ ---	\$ ---	\$ 10,369	\$ 21,258
Public safety	---	---	---	32,729	1,399	13,334	---	---	14,733
Library	---	---	---	---	---	---	1,132	---	32,729
Other purposes	1,515	13,910	---	---	---	---	---	---	16,557
Unassigned	---	---	10,890	---	---	---	---	---	10,890
	\$ 1,515	\$ 13,910	\$ 21,779	\$ 32,729	\$ 1,399	\$ 13,334	\$ 1,132	\$ 10,369	\$ 96,167

See accompanying independent auditor's report.

SCHEDULE "2"

**CITY OF SABULA
SABULA, IOWA**

**SCHEDULE OF INDEBTEDNESS
YEAR ENDED JUNE 30, 2015**

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
General Obligation Bonds: Street & Water Utility Improvements	May 15, 2007	4.00-4.45%	150,000	\$ 50,000	\$ ---	\$ 15,000	\$ 35,000	\$ 2,203	\$ ---
Levee Improvement Note, Series 2013	February 7, 2013	3.125%	355,084	342,034	---	13,457	328,577	10,688	---
Bank Loans: Vehicle	July 2, 2010	6.00%	\$ 26,526	\$ 5,305	---	\$ 5,305	\$ ---	\$ 168	\$ ---
Vehicle Upgrades	February 22, 2013	4.85%	8,120	6,233	---	1,979	4,254	279	---
Other Obligation: Interim loan and disbursement agreement	June 21, 2013	0.00%	\$ 131,000	\$ 79,619	\$ 25,000	\$ ---	\$ 104,619	\$ ---	\$ ---
Total				\$ 483,191	\$ 25,000	\$ 35,741	\$ 472,450	\$ 13,338	\$ ---

See accompanying independent auditor's report.

**CITY OF SABULA
SABULA, IOWA**

**BOND AND NOTE MATURITIES
JUNE 30, 2015**

General Obligation Bonds					
Year Ending June 30	Street and Sewer Improvement Note		Levee Improvement Note, Series 2013		Total
	Issued May 15, 2007		Issued February 7, 2013		
	Interest Rates	Amount	Interest Rates	Amount	
2016	4.40%	\$ 15,000	3.125%	\$ 13,878	\$ 28,878
2017	4.45%	20,000	3.125%	14,312	34,312
2018		---	3.125%	14,759	14,759
2019		---	3.125%	15,220	15,220
2020		---	3.125%	15,696	15,696
2021		---	3.125%	16,186	16,186
2022		---	3.125%	16,692	16,692
2023		---	3.125%	17,214	17,214
2024		---	3.125%	17,752	17,752
2025		---	3.125%	18,306	18,306
2026		---	3.125%	18,879	18,879
2027		---	3.125%	19,468	19,468
2028		---	3.125%	20,077	20,077
2029		---	3.125%	20,704	20,704
2030		---	3.125%	21,351	21,351
2031		---	3.125%	22,018	22,018
2032		---	3.125%	22,706	22,706
2033		---	3.125%	23,359	23,359
Total		\$ 35,000		\$ 328,577	\$ 363,577

Year Ending June 30	Bank Loan		Other Obligation	
	Vehicle Upgrades		Interim Loan and Disbursement Agreement	
	Issued Feb. 22, 2013		Issued June 21, 2013	
	Interest Rates	Amount	Interest Rates	Amount
2016	4.85%	\$ 2,076	0.00%	\$ 104,619
2017	4.85%	2,178		
		\$ 4,254		\$ 104,619

See accompanying independent auditor's report.

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and
Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Sabula, Iowa, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 27, 2016. Our report expressed qualified opinions on the financial statements since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2014. The financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. In addition, our report included a disclaimer of opinion on the other information.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Sabula's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Sabula's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Sabula's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City of Sabula's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in Part I of the accompanying Schedule of Findings as items I-B-15 through I-F-15 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Sabula's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of non-compliance that is required to be reported under Government Auditing Standards which is noted in Part I of the accompanying Schedule of Findings as item I-A-15. In addition, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2015 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Sabula's Responses to Findings

The City of Sabula's responses to findings identified in our audit are described in the accompanying Schedule of Findings. The City of Sabula's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Sabula during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

O'CONNOR, BROOKS & CO., P.C.
O'Connor, Brooks & Co., P.C.
Dubuque, Iowa
May 27, 2016

**CITY OF SABULA
SABULA, IOWA**

**SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2015**

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

- I-A-15 Transfers From Enterprise Funds – Transfers were made from the electric enterprise fund to various other City funds which may not have been in compliance with the City Finance Committee Rules – Chapter 545-2.5. According to City Finance Committee Rules – Chapter 545-2.5, only “surplus” enterprise funds may be transferred to other funds.

City Finance Committee Rules – Chapter 545-2.5(5) states:

“2.5(5) City utility fund and city enterprise fund. Any governing body of a city utility, combined utility system, city enterprise, or combined city enterprise which has a surplus in its fund may transfer such surpluses to any other city fund, except the emergency fund, by resolution of the appropriate governing body. For the purposes of this subrule, a surplus may exist only after all required transfers have been made to any restricted accounts in accordance with the terms and provisions of any revenue bonds or loan agreements relating to the utility or enterprise fund.

A surplus shall be defined as the cash balance in the operating account or the unrestricted retained earnings calculated in accordance with GAAP in excess of:

- a. The amount of expenses of disbursements for operating and maintaining the utility or enterprise for the preceding three months, and,
- b. The amount necessary to make all required transfers to restricted accounts for the succeeding three months.

Recommendation - Only “surplus” enterprise funds should be transferred to other City funds in accordance with City Finance Committee Rules – Chapter 545-2.5.

Response - We will only make transfers of “surplus” enterprise funds to other City funds in the future.

Conclusion - Response accepted.

MATERIAL WEAKNESSES:

- I-B-15 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. For the City, two individuals perform most duties in the following areas:

**CITY OF SABULA
SABULA, IOWA**

**SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2015**

Part I: Findings Related to the Financial Statements:

1. Information system (computer usage) – performing all general accounting functions, including journal entries, having custody of assets and controlling all data and output.
2. Cash – handling, reconciling and recording.
3. Investments – recordkeeping, investing, recording and custody.
4. Debt – recordkeeping and payment processing.
5. Receipts – collecting, depositing, journalizing and posting.
6. Utilities – billing collecting, depositing and posting.
7. Disbursements – invoice processing, check writing, mailing, posting, reconciling and recording.
8. Payroll – recordkeeping, preparation and distribution.
9. Financial reporting – preparing and reconciling.

For the Sabula Volunteer Fire Department, Krabbenhoft Public Library, Sabula Business Association, Sabula Rescue, and Sabula Ambulance accounts, one individual has control over each of the following areas:

1. Receipts – collecting, depositing, posting and reconciling.
2. Disbursements – preparing, recording and reconciling.
3. Cash – handling, reconciling and recording.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the City, Volunteer Fire Department, Library, Business Association, Sabula Ambulance, and Sabula Rescue should review their control procedures to obtain the maximum internal control possible under the circumstances.

Response – The City will review its operating procedures and obtain the maximum internal control possible.

Conclusion - Response accepted.

**CITY OF SABULA
SABULA, IOWA**

**SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2015**

Part I: Findings Related to the Financial Statements: (Continued)

I-C-15 Adjusting Journal Entries - Several adjusting journal entries were proposed to management to represent a fair presentation of the financial statements. Significant adjustments were made to correct the recording of a sales tax refund and to reclass FEMA monies received. Misstatements in the financial statements could impair management and the City Council's ability to make informed decisions.

Recommendation - We recommend that the City implement procedures to reasonably assure that account balances are fairly stated.

Response - We have made the recommended adjusting journal entries and will review receipts and disbursements activity in the future to assure all financial information is recorded properly and reflected in the proper fund.

Conclusion - Response accepted.

I-D-15 Special Revenue, FEMA Flood Pump Grant Fund - The City has a Special Revenue, FEMA Flood Pump Grant Fund which has had an unchanged fund balance of \$1,515 since the fiscal year ended June 30, 2010. City personnel were unable to determine as to the purpose of the remaining fund balance or if the City has an obligation to reimburse FEMA for excess funds received.

Recommendation - We recommend the City investigate the remaining fund balance in this fund. The City should determine if an adjustment is needed to reduce the fund balance to \$0 or if the City is obligated to reimburse FEMA for these monies.

Response - We will investigate the remaining fund balance in the Special Revenue, FEMA Flood Pump Grant Fund.

Conclusion - Response accepted.

I-E-15 Disbursements - Certain disbursements were not supported by proper documentation.

Recommendation - All disbursements should be supported by original vendor invoices or other supporting documentation.

Response - All future disbursements will be supported by original receipts.

Conclusion - Response accepted.

**CITY OF SABULA
SABULA, IOWA**

**SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2015**

Part I: Findings Related to the Financial Statements: (Continued)

- I-F-15 Reporting the City's financial information in accordance with the cash basis method of accounting requires management to possess sufficient accounting knowledge to select and apply accounting principles and prepare year-end financial statements and footnote disclosures. The City's management team does not include someone with those qualifications and training to fulfill these responsibilities, which is a common situation in small governmental entities. As a result, there is a higher risk that financial statement or footnote disclosure errors or omissions would not be detected and corrected by management in a timely manner.

Recommendation: We recommend that management obtain additional knowledge of cash basis financial statements from relevant accounting literature and attend professional education courses to assist management in their ability to take responsibility for reliable cash basis financial statements.

Response: We will consider having management obtain the additional knowledge of cash basis financial statements and professional education needed to assist management in preparing reliable cash basis financial statements.

Conclusion: Response accepted.

Part II: Other Findings Related to Statutory Reporting:

- II-A-15 Certified Budget - Disbursements during the year ended June 30, 2015, exceeded the amounts budgeted in the public safety, public works and community and economic development functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - The budget should have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The City will amend the budget before the budgeted amount is exceeded.

Conclusion - Response accepted.

**CITY OF SABULA
SABULA, IOWA**

**SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2015**

Part II: Other Findings Related to Statutory Reporting:

- II-B-15 Questionable Disbursements - Certain disbursements we believe may not meet the requirement of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented were noted. These disbursements are detailed as follows:

<u>Paid To</u>	<u>Purpose</u>	<u>Amount</u>
Various	Awards banquet	\$ 2,549
Various	Pop for Sabula Ambulance	92

According to the opinion, it is possible for certain disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation - The Council should determine and document the public purpose served by these disbursements before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirements for proper documentation.

Response - We will comply with this recommendation.

Conclusion - Response accepted.

- II-C-15 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- II-D-15 Business Transactions - No business transactions between the City and City officials were noted.
- II-E-15 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-15 Council Minutes - Although minutes of the council proceedings were prepared and published, we noted a number of disbursements which were not approved by the Council. Most of these disbursements were payroll transactions.

Recommendation - The Council should approve all disbursements of the City and be included in the minutes of the Council meetings.

Response - The Council will approve all claims in the future to comply with Chapter 372.13(6) of the Code of Iowa.

Conclusion - Response accepted.

**CITY OF SABULA
SABULA, IOWA**

**SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2015**

Part II: Other Findings Related to Statutory Reporting: (Continued)

- II-G-15 Deposits and Investments – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

Recommendation - The City should adopt a written investment policy that complies with the provisions of Chapter 12B.10B of the Code of Iowa.

Response - The City will adopt a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

Conclusion - Response accepted.

- II-H-15 Separately Maintained Records – The Volunteer Fire Department, Sabula Ambulance Service, the Sabula Rescue and the Sabula Business Association all maintain accounting records separate from the City's accounting records. The transactions and resulting balances of these accounts were not recorded in the City Clerk's accounting records and were not reported to the City Council each month.

Recommendation – Chapter 384.20 of the Code of Iowa states, in part, "A City shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose." For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be included in the City's accounting records, including budget reports, should be reported to the Council on a monthly basis.

Response – The City Clerk will present to the Council with a recommendation regarding the Volunteer Fire Department, Sabula Ambulance Service, the Sabula Rescue and the Sabula Business Association and request direction.

Conclusion - Response accepted.

- II-I-15 Financial Condition - The General Fund had a deficit balance at June 30, 2015 of \$46,874.

Recommendation – The City should investigate alternatives to eliminate the General Fund deficit balance and return the fund to a sound financial position.

Response - The City will investigate alternatives to eliminate the General Fund deficit balance and return the fund to a sound financial position.

Conclusion - Response accepted.

**CITY OF SABULA
SABULA, IOWA**

**SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2015**

Part II: Other Findings Related to Statutory Reporting: (Continued)

- II-J-15 Property Tax Levies - Voter approved property tax levies should be properly authorized in accordance with Chapter 384.12 of the Code of Iowa. However, City personnel were unable to locate proper authorization for the employee benefits and insurance property tax levies.

Recommendation - We recommend the City search for proper authorization for the insurance and employee benefits property tax levies. We also recommend the City maintain documentation showing proper authorization for all future voter approved property tax levies.

Response - We will search for proper documentation for the insurance and employee benefits property tax levies. We will also maintain documentation showing proper authorization for all future voter approved property tax levies.

Conclusion - Response accepted.

- II-K-15 Annual Financial Report - The Annual Financial Report (AFR) was filed by December 1 as required by Chapters 384.22 of the Code of Iowa. However, the AFR does not agree in total to the financial statements due to adjusting journal entries proposed during the audit.

Recommendation - The City should contract the State Auditor's Office regarding amending the fiscal year 2015 AFR.

Response - We will contact the State Auditor's Office regarding amending the fiscal year 2015 AFR.

Conclusion - Response accepted.

- II-L-15 Transfers - The Council approved transfers as per the amended budget, however, the amount of transfers on the amended budget did not match the City's actual transfers for the fiscal year.

Recommendation - We recommend that the City approve the actual transfers made during the year or approve a budget that reflects the actual transfers made between funds.

Response - The Council will approve actual transfers made in the future or will approve a budget that reflects the actual transfers made for the fiscal year.

Conclusion - Response accepted.